



LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: **SB 35** SLS 09RS 282
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:

Proposed Amd.:
Sub. Bill For.:

| | | |
|---|---------|---------------------------------|
| Date: April 8, 2009 | 1:29 PM | Author: CROWE |
| Dept./Agy.: | | |
| Subject: Law enforcement tax exemption | | Analyst: Travis McIlwain |

TAX EXEMPTIONS OR -\$6,400,000 GF RV See Note Page 1 of 1

Exempts certain law enforcement officers such as sheriffs, sheriff deputies, state police, municipal police whose duties primarily involve the prevention or detection of crime or enforcement of penal and traffic laws from income taxes on the first

Proposed legislation provides a tax exemption from state individual income tax on the first \$32,000 of income earned by a law enforcement officer. The legislation defines law enforcement officer as any full-time employee of this state, municipality, sheriff, law enforcement district or other agency of the state, whose permanent duties primarily involve the prevention or detection of crime or the enforcement of penal and traffic laws.

Applies to all taxable periods beginning after December 31, 2008. Effective upon governor's signature.

| EXPENDITURES | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 5 -YEAR TOTAL |
|----------------|----------|----------|----------|----------|----------|---------------|
| State Gen. Fd. | \$45,000 | \$53,000 | \$55,000 | \$58,000 | \$60,000 | \$271,000 |
| Agy. Self-Gen. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Ded./Other | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Federal Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Local Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Annual Total | \$45,000 | \$53,000 | \$55,000 | \$58,000 | \$60,000 | \$271,000 |

| REVENUES | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 5 -YEAR TOTAL |
|----------------|---------------|---------------|---------------|---------------|---------------|----------------|
| State Gen. Fd. | (\$6,400,000) | (\$6,400,000) | (\$6,400,000) | (\$6,400,000) | (\$6,400,000) | (\$32,000,000) |
| Agy. Self-Gen. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Ded./Other | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Federal Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Local Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Annual Total | (\$6,400,000) | (\$6,400,000) | (\$6,400,000) | (\$6,400,000) | (\$6,400,000) | (\$32,000,000) |

EXPENDITURE EXPLANATION

Given the potential number of affected taxpayers, the various occupations that can be eligible, and the fairly large exemption allowed, the Department of Revenue indicates the need of 1 position and funding to review returns claiming this exemption to insure appropriate compliance with the intent of these provisions.

REVENUE EXPLANATION

The estimated direct state general fund revenue loss from the exemption proposed by this bill could be at least \$6.4 million in FY 10. Effectiveness for tax year 2009 results in the first year of impact being FY 10 as returns are filed in the spring of 2010.

According to the 2008 Louisiana Occupational Handbook, published by the Louisiana Workforce Commission, the average salary of individuals within the Protective Services Occupations is \$33,612, greater than the bill’s proposed \$32,000 annual earnings exemption. According to Civil Service, the projected number of Louisiana individuals this legislation could impact is 17,461. The fiscal note also assumes all POST certified individuals, have police officer in its civil service title or law enforcement duties are considered law enforcement officers as defined by this bill. Thus, the aggregate amount of income potentially exempted from taxation by this bill is \$558.8 million. State personal income tax data for all filers indicates that the average effective tax rate imposed on incomes up to the proposed \$32,000 exemption amount is 1.4%. Thus, total state revenue losses could be some \$7.8 million per year (if this income is deducted from the “top” of adjusted gross income, the state revenue loss would likely be at least 50% greater than estimated here).

This estimate may overstate the actual revenue loss from this exemption since it assumes all eligible taxpayers earn at least \$32,000 per year. Since the average earnings for these occupations is only some 5% greater than the proposed exemption, it is likely that a meaningful portion of these taxpayers are currently earning less than the proposed exemption amount. While those taxpayers would be completely exempt from state income tax, the aggregate amount of exempted income and consequent state tax revenue loss would be less than estimated here. For every \$1,000 that the effective exempted average earnings of these occupations is lower than the \$32,000 proposed by the bill (a 3.1% reduction), the total state revenue loss is \$317,000. Thus, even if the effective exempted average earnings were some \$6,000 lower than utilized here (\$26,000 or 18.8% lower), the total state revenue loss would still approximate \$6.4 million per year. This probably understates the actual revenue loss somewhat and constitutes a minimum annual revenue loss.

NOTE: There are approximately 4,300 correctional officers employed with the Department of Corrections that are not included within the eligible individuals for such tax exemption, since they do not work within the general population.

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| Senate | Dual Referral Rules | House | |
| <input type="checkbox"/> 13.5.1 >= \$500,000 Annual Fiscal Cost | | <input type="checkbox"/> 6.8(F) >= \$500,000 Annual Fiscal Cost | Gregory V. Albrecht Chief Economist |
| <input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change | | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease | |